

STATE OF MAINE
PUBLIC UTILITIES COMMISSION

Docket No. 98-845

December 15, 1998

NORTHERN UTILITIES INC.
Re: Application for Approval
of Amendments to Revolving Credit
Agreement and Letter of Credit
Agreement (§ 902 and § 1101)
(\$12,000,000)

ORDER APPROVING
ISSUE OF SECURITIES AND
MORTGAGE OF UTILITY
PROPERTY

WELCH, Chairman; NUGENT and DIAMOND, Commissioners

I. Summary

On November 11, 1998 Northern Utilities Inc. (NU or the Company) filed with the Commission its application for authority to amend both its existing revolving credit agreement with The First National Bank of Boston (Bank of Boston) and an existing Letter of Credit Agreement with Union Bank of California (Union Bank). The revolving credit facility was originally approved by the Commission on March 9, 1993 in Docket No. 93-028 and its renewal was approved on March 18, 1997 in Docket No. 97-066. The financing arrangement backed by the Letter of Credit Agreement was originally approved by the Commission as part of a stipulation in Docket No. 82-100, dated December 9, 1982. NU's amendments would: (1) increase its revolving credit facility from \$20 million to \$25 million; and, (2) increase its Letter of Credit availability from \$3 million to \$10 million. This Order approves the proposed amendments to both agreements.

II. Discussion

The majority of the existing terms and conditions of NU's revolving credit facility, including the maturity date (March 17, 2001), the borrowing rate, and its unsecured status remain unchanged from the original agreement approved by the Commission in Docket No. 97-066. The only change worthy of note, other than the increase in the amount available, is that the unused portion of the incremental \$5 million will be subject to a flat commitment fee of 12.5 basis points (.125%) on any unused amount as opposed to a sliding scale (between 7.5 and 12.5 basis points) depending on the Company's credit rating that applies to the original \$20 million. NU plans to utilize the additional \$5 million to reduce existing short-term debt balances which were recently incurred to retire a maturing long-term note in September 1998. The Company's capital structure will not change markedly as a result of this transaction.

The requested increase in the amount of the Letter of Credit with Union Bank stems from the Company's requirement for increased underground storage capacity, resulting from the planned conversion of the Portland Pipeline from natural gas to oil. NU expects the value of its stored natural gas inventory to increase from approximately \$2.0

million in fiscal 1997 to approximately \$9 million in fiscal 1998, which accounts for the request for a \$7.0 million increase in the Letter of Credit amount. The existence of the Letter of Credit itself is the product of an inventory financing arrangement that NU and its parent company, Bay State Gas (Bay State), have with an entity known as BayNor, Inc.

The creation of BayNor and the associated financing arrangement, as approved by the Commission in Docket No. 82-100, were designed to minimize the cost of acquiring and storing both NU's and Bay State's natural gas inventories. Instead of funding these inventories with short-term lines of credit or company-issued (either Bay State or NU) commercial paper, BayNor was created as a special purpose entity whose sole purpose is to hold natural gas inventory for NU and Bay State. BayNor takes title to the natural gas and pays for it with its own commercial paper which is backed by the Letter of Credit. The supporting Letter of Credit allows the commercial paper to be marketed with a credit rating equal to that of Union Bank rather than of BayNor itself. This results in BayNor's commercial paper having the highest possible ratings of A1/P1+ (S&P/Moody's ratings), carrying the most favorable cost rates.

NU and Bay State, the parties that arranged the Letter of Credit, must reimburse BayNor for all expenses, including the commercial paper costs and the cost of the Letter of Credit. For the 12-month period between October 1997 and September 1998, BayNor's "all-in" borrowing rate has averaged 5.68% while the weighted cost of aggregated NU/Bay State short-term debt has averaged 5.89%, a savings of 21 basis points (.21%). As noted above, NU (and Bay State) must actually transfer title to its natural gas inventory directly to BayNor in order to facilitate the transaction. Accordingly, the arrangement requires Commission approval under 35-A M.R.S.A. § 1101.

Having reviewed the application of the Company, together with data filed in support of it, it is the opinion of the Commission that the proceeds of the issuance of the securities are required in good faith for the purposes enumerated in 35-A M.R.S.A. § 901. In approving this securities issue, consistent with normal practice and pursuant to §902(4), the Commission does not imply approval of the Company's capital needs or capitalization ratio for ratemaking purposes, nor does this order limit or restrict the powers of the Commission in determining or fixing any rate.

Accordingly, we

O R D E R

1. That Northern Utilities, Inc. is hereby authorized to increase the availability of its existing revolving credit agreement with The First National Bank of Boston by \$5 million (to a total of \$25 million) with a commitment fee of 12.5 basis points on the additional amount. All other terms and conditions will remain unchanged from the Agreement as approved by the Commission in Docket No. 97-066 on March 18, 1997.

2. That Northern Utilities, Inc. is hereby authorized to increase the availability of its existing financing arrangement with BayNor, Inc., as well as the associated Letter of Credit Agreement with Union Bank of California, by \$7 million (to a total of \$10 million). In addition, the Company is authorized transfer title to its natural gas inventory pursuant to 35-A M.R.S.A. § 1101 as required by this financing arrangement. All other terms and conditions will remain unchanged from the Agreement as approved by the Commission in Docket No. 82-100, dated December 9, 1982.

3. That Northern Utilities, Inc. report to this Commission, in writing, its actions pursuant to this order within thirty (30) days of the date of the closing of this transaction or March 1, 1999, whichever may come first.

4. That a copy of this Order be mailed to interested parties and this Docket be closed.

Dated at Augusta, Maine, this 15th day of December, 1998.

BY ORDER OF THE COMMISSION

Dennis L. Keschl
Administrative Director

COMMISSIONERS VOTING FOR: Nugent
Diamond

Welch - Absent

NOTICE OF RIGHTS TO REVIEW OR APPEAL

5 M.R.S.A. § 9061 requires the Public Utilities Commission to give each party to an adjudicatory proceeding written notice of the party's rights to review or appeal of its decision made at the conclusion of the adjudicatory proceeding. The methods of review or appeal of PUC decisions at the conclusion of an adjudicatory proceeding are as follows:

1. Reconsideration of the Commission's Order may be requested under Section 1004 of the Commission's Rules of Practice and Procedure (65-407 C.M.R.110) within 20 days of the date of the Order by filing a petition with the Commission stating the grounds upon which reconsideration is sought.
2. Appeal of a final decision of the Commission may be taken to the Law Court by filing, within 30 days of the date of the Order, a Notice of Appeal with the Administrative Director of the Commission, pursuant to 35-A M.R.S.A. § 1320(1)-(4) and the Maine Rules of Civil Procedure, Rule 73, et seq.
3. Additional court review of constitutional issues or issues involving the justness or reasonableness of rates may be had by the filing of an appeal with the Law Court, pursuant to 35-A M.R.S.A. § 1320(5).

Note: The attachment of this Notice to a document does not indicate the Commission's view that the particular document may be subject to review or appeal. Similarly, the failure of the Commission to attach a copy of this Notice to a document does not indicate the Commission's view that the document is not subject to review or appeal.